

INTREPID

M/019/005
The Intrepid Companies
700 17th Street, Suite 1700
Denver, CO 80202
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December 17, 2004

Utah Division of Oil, Gas and Mining
Attn: Paul Baker, Mark Mesch and Daron Haddock
PO Box 145801
Salt Lake City, UT 84114-5801

Re: Intrepid Mining, LLC; Moab Salt, LLC

Dear Paul, Mark, and Daron,

Intrepid Mining, LLC (Intrepid) proposes canceling the above-captioned bonds and replacing them with a self-bonding agreement as provided by Utah Code Ann. § 40-8-14(3) and R647-4-113. In addition, Intrepid is proposing the establishment of a reclamation fund. Our application is based on the following:

In February, 2000, Intrepid purchased all of the common stock of Moab Salt, Inc. ("Moab") a wholly owned subsidiary of PCS, Inc. in Canada. At that time the reclamation obligation of \$13,247,000 was based on a reclamation plan previously filed. At the time of the acquisition, the State of Utah allowed PCS to self bond the reclamation liability of Moab and, accordingly, PCS was not required to post a separate bond with the State of Utah. As a condition of the purchase of Moab, Intrepid had agreed to eliminate PCS' obligation to Utah. In order to affect the transfer of liabilities from PCS to Intrepid in a timely manner, Intrepid accepted the obligation as presented in the filed plan, but soon began to work on a revised plan to submit to this Division. That plan revising the reclamation obligation to \$6,266,800 was approved by this Division on November 3, 2004.

Since the original bond, Intrepid has paid over \$1,000,000 in premiums to Lyndon Property Insurance Company for the surety bonds covering said reclamation. Neither Intrepid nor the State of Utah has benefited by those premium payments.

Furthermore, Intrepid purchased the assets of two additional potash mining operations, one located in New Mexico and the other in Wendover, Utah. Intrepid's assets, using generally accepted accounting principles ("GAAP") are now approximately \$80,000,000, of which \$40,000,000 are located in Utah. Intrepid's two operations in Utah now have approximately 100 employees.

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DIV. OF OIL, GAS & MINING

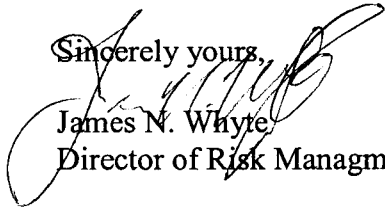
Intrepid also possesses and will possess for the life of the mine much of the equipment and manpower that will be needed for the reclamation activities. Equipment such as the front end loaders, graders, etc. are currently used in Intrepid's operation and could be used to conduct some of the reclamation. Also, Intrepid's workforce includes experienced heavy equipment operators who are familiar with the site.

Intrepid's reclamation plans, on file with the Division, also provide information regarding the magnitude, type and costs of approved reclamation activities planned for the land affected and operation of Intrepid's facilities.

Therefore, based on all of the criteria established in the applicable statute and regulation governing the application for self-bonding, Intrepid believes it qualifies and therefore respectfully requests the Division's and Board's approval of Intrepid's proposal. Intrepid welcomes the opportunity to discuss its self-bonding proposal and will make itself available at your disposal to discuss the proposal. We have proposed a meeting at your offices on Thursday, January 6, 2005.

We look forward to your favorable response.

Sincerely yours,



James N. Whyte
Director of Risk Managment

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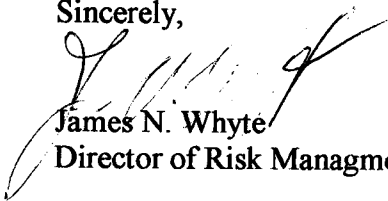
Dear Paul, Mark, and Daron,

Attached is our proposal for self bonding and the establishment of a reclamation fund that will be fully funded prior to the beginning of the final reclamation of our mining operations.

We have scheduled a meeting with you on Thursday, January 6, 2005 at your offices to review the proposal. Should you have any questions prior to our meeting, please direct them to me or Blaine Rawson of HRO.

We look forward to working with you on this proposal.

Sincerely,


James N. Whyte
Director of Risk Managment

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In addition, pursuant to Utah Code Ann. § 40-8-14(3) and R647-4-113, Intrepid provides the following information for the Board and the Division to consider in support of Intrepid's self-bonding proposal:

(A) Financial Status. Intrepid's unaudited financial statements for the nine months ended September 30, 2004 are attached to demonstrate Intrepid's financial strength and stability. In particular, please note the following financial highlights:

1. For the nine months ended September 30, 2004 Intrepid had net income of \$12,477,000 compared to \$2,265,000 for the same period in 2003. Earnings before interest, taxes, depreciation and amortization ('EBITDA') for 2004 is \$17,212,000 compared to \$3,910,000 in 2003. Intrepid completed its acquisition of the New Mexico assets on February 29, 2004 and its Wendover assets on March 31, 2004. Had Intrepid completed the acquisitions on January 1, 2004 Intrepid, for the nine months ended September 30, 2004, on a pro forma basis, would have had net income of \$ 14,628,000 and EBITDA of \$19,360,000. Annualizing the pro forma EBITDA and using the September 30, 2004 debt of \$43,080,000 the debt to EBITDA ratio is calculated as follows:

	Pro Forma Nine Months	Pro Forma Annualized 2004
EBITDA	\$ 19,360,000	\$ 25,813,000
Debt to EBITDA Ratio	n/a	1.67

2. For the nine months ended September 30, 2004 Intrepid's cash provided from operating activities was \$20,758,000 compared to \$2,475,000 for 2003.
3. At September 30, 2004 Intrepid has net working capital of \$10,550,000, a current ratio of 1.57 and a remaining availability on its Bank revolving credit line of approximately \$12,000,000. Intrepid's current investment policy is to use all excess cash flow to pay down its existing lines of credit, which are all long-term obligations.
4. At September 30, 2004, on a GAAP basis, Intrepid has Members' Equity of \$16,768,000, resulting in a long-term debt to equity ratio, excluding its reclamation liabilities of 2.37 and total liabilities to equity ratio of 3.75. Please note that in the opinion of Patrick A. Quinn, President of Quinn & Associates, P.C. ('Q&A'), a firm which provides Intrepid mergers and acquisition, accounting and tax services, the fair market value of Intrepid's assets is substantially greater than the value recorded under GAAP. Mr. Quinn states "In the application of Statement of Financial Accounting

Standards 141 and 143, Intrepid has been required to make entries to its balance sheets which reduced asset carrying values while the underlying events precipitating such entries resulted in an increase in fair value of the assets." Mr. Quinn, who is a Certified Valuation Analyst, goes on to state that "there are several methods to determine the fair market value of the Members' Equity of Intrepid, but using a simple cash flow or earnings capitalization method would result in an Enterprise valuation in excess of \$125,000,000 and a valuation for Members' Equity in excess of \$75,000,000." Substituting a \$75,000,000 value for Members' Equity, Intrepid's long-term debt to equity ratio, excluding its reclamation liabilities becomes .52 and a total liabilities to equity ratio becomes .84. It should also be noted that US Bank, who provided financing for the two acquisitions, values the Members' Equity of Intrepid at a value significantly higher than values assigned by GAAP.

(B) Assets within the State. Of the assets listed above, Intrepid maintains over \$40,000,000 of assets within the state. This valuation is based on GAAP accounting, but does not reflect the market value of these assets as discussed above.

(C) Past performance in complying with contractual agreements. —Attached is internal correspondence from an Intrepid consultant working with governmental agencies in New Mexico. During reference checking a representative from the State of New Mexico contacted Utah governmental offices to inquire about Intrepid's reputation. The agencies gave Intrepid the "highest marks without any hesitation."

(D) Facilities available to carry out the planned work:

Intrepid believes that it has the financial and physical facilities necessary to carry out the planned work. In order to provide security to the State of Utah for granting the self-bonding request, Intrepid proposes the establishment of a reclamation fund, the management which is controlled by Intrepid, but is titled to the State of Utah for any reclamation costs that are incurred prior to or at the time of final reclamation. Said fund will be established based on a mine life equal to the basis upon which the state taxes these properties.

Bond Funding Assumptions:

Mine Life: 18 Years

Initial Deposit into the fund by Intrepid: \$600,000

Monthly funding amount: \$18,725

Annual Growth rate of the fund: 5.5%

Value of fund in 18 years: \$6,266,800

Professional Money Manager of the Fund: Capital Consulting—See attached